

**FILED**

SEP 10 2015

SECRETARY, BOARD OF  
OIL, GAS & MINING

**BEFORE THE BOARD OF OIL, GAS AND MINING  
DEPARTMENT OF NATURAL RESOURCES  
STATE OF UTAH**

IN THE MATTER OF THE REQUEST FOR  
AGENCY ACTION OF FIDELITY  
EXPLORATION & PRODUCTION COMPANY  
FOR AN ORDER ESTABLISHING A SPECIAL  
DRILLING UNIT FOR THE CCU 7-1-26-20  
HORIZONTAL WELL FOR THE PRODUCTION  
OF OIL AND ASSOCIATED GAS AND  
HYDROCARBONS FROM THE PARADOX  
FORMATION COMPRISED OF LOTS 9 AND 10,  
SE $\frac{1}{4}$ NW $\frac{1}{4}$ , E $\frac{1}{2}$ SW $\frac{1}{4}$ , W $\frac{1}{2}$ SE $\frac{1}{4}$  AND SE $\frac{1}{4}$ SE $\frac{1}{4}$  OF  
SECTION 6, AND NE $\frac{1}{4}$ NE $\frac{1}{4}$  OF SECTION 7,  
TOWNSHIP 26 SOUTH, RANGE 20 EAST, SLM,  
GRAND COUNTY, UTAH

**REQUEST FOR AGENCY ACTION**

Docket No. 2015-027

Cause No. 166-06

COMES NOW, Fidelity Exploration & Production Company ("Fidelity"), acting by and through its attorneys, MacDonald & Miller Mineral Legal Services, PLLC, and pursuant to Utah Code Ann. §§40-6-5(3)(b) and 40-6-6(6), and hereby respectfully requests the Board of Oil, Gas and Mining (the "Board") to enter an order establishing a special drilling unit for the CCU 7-1-26-20 horizontal well (the "Subject Well") for the production of oil and associated gas and hydrocarbons from the Paradox formation, defined for purposes of this Cause as follows:

that interval between the stratigraphic equivalence of 3,962 feet and 7,684 feet, as shown on the Dual Induction Log of the CCU 7-1-26-20 Well, with a surface hole location in the NE $\frac{1}{4}$ NE $\frac{1}{4}$ , Section 7, T26S, R20E, SLM,

comprised of the following Grand County, Utah lands:

Township 26 South, Range 20 East, SLM

Section 6: Lots 9 (38.55) and 10  
(38.65), SE $\frac{1}{4}$ NW $\frac{1}{4}$ ,  
E $\frac{1}{2}$ SW $\frac{1}{4}$ , W $\frac{1}{2}$ SE $\frac{1}{4}$ , and  
SE $\frac{1}{4}$ SE $\frac{1}{4}$

Section 7: NE $\frac{1}{4}$ NE $\frac{1}{4}$

(containing 357.20 acres)

(the "Subject Lands"), retroactive to January 27, 2014, the date of first production from the Subject Well.

In support of this request, Fidelity respectfully states and represents:

1. Fidelity is a Delaware corporation in good standing with its principal place of business in Denver, Colorado. It is an indirect subsidiary of MDU Resources Group, Inc. Fidelity is duly qualified to conduct business in the State of Utah, and is fully and appropriately bonded with all relevant Federal and State of Utah agencies.

2. The oil and gas underlying the Subject Lands are owned by the United States of America, administered by the Bureau of Land Management ("BLM"), and subject to the following Federal oil and gas leases:

<u>Lease</u>	<u>Lands</u>
UTU-64821	Sec. 6: Lots 9 and 10 SE $\frac{1}{4}$ NW $\frac{1}{4}$ , E $\frac{1}{2}$ SW $\frac{1}{4}$
UTU-53626	Sec. 6: W $\frac{1}{2}$ SE $\frac{1}{4}$ , SE $\frac{1}{4}$ SE $\frac{1}{4}$ Sec. 7: NE $\frac{1}{4}$ NE $\frac{1}{4}$

(the "Subject Leases"). The operating rights in the Subject Leases, as relevant to the Paradox formation (as defined above), are owned solely by Fidelity.

3. The Subject Lands and Subject Leases are either effectively or fully committed to the Cane Creek Federal Exploratory Unit, approved by the BLM effective April 15, 2002. Fidelity serves as Unit Operator.

4. Under the terms of the Cane Creek Unit Agreement, all oil and gas in all formations underlying the committed lands are unitized. However, production is only allocated on a participating area basis, established by wells that are capable of producing Unitized Substances in Paying Quantities; *to wit*: "quantities sufficient to repay the costs of drilling, completing and producing operations, with a reasonable profit." Production from any well not meeting the "Unit Paying Quantities" criteria and not otherwise within an established participating area is instead to be allocated on a leasehold basis.

5. Pursuant to an application to drill approved by both the BLM and Utah Division of Oil, Gas and Mining (the "Division"), Fidelity spud the Subject Well on February 21, 2013 at a surface location 827 feet FNL and 864 feet FEL in the NE $\frac{1}{4}$ NE $\frac{1}{4}$  of Section 7, and drilled it horizontally with a terminus located 2,748 feet FSL and 943 feet FWL in Lot 9 of Section 6. The lateral was drilled through and perforated in the Paradox formation (as defined above), and the Subject Well first produced on January 27, 2014, and was completed as a producing oil well on February 22, 2014. However, as

evidenced by BLM Decision Letter dated October 22, 2014, the BLM determined the Subject Well does not satisfy the “Unit Paying Quantities” criteria under the Cane Creek Unit Agreement.

6. Since the vertical portion and the lateral of the Subject Well encompass portions of two Federal Leases, under Federal regulations, a communitization agreement will be required. However, under Federal guidelines, the BLM will not approve a communitization agreement without a conforming spacing order from the Board. There currently is no spacing order from the Board relating to the Subject Lands.

7. Consequently, and to protect correlative rights, Fidelity requests the Board to establish a special drilling unit for the Subject Well, *i.e.*, the oil and associated gas and hydrocarbons produced from the Paradox formation (as defined above) comprised of the Subject Lands (357.20 acres), retroactive to January 27, 2014, the date of first production for the Subject Well.

8. Fidelity believes and therefore alleges that: (1) the Paradox formation (as defined above) underlying the Subject Lands generally constitute a common source of supply for oil and associated gas and hydrocarbons; and (2) the Subject Lands are not smaller than the maximum area that can be economically and efficiently drained by the Subject Well.

9. The basis for Fidelity's allegations made in Paragraph 8 above in part stem from stimulated reservoir volume (or "SVR") calculations, reflecting drainage of approximately 130 feet either side of the lateral (260 feet in total width) and including any quarter-quarter section (or substantially equivalent lot) cut by the corresponding rectangle. The BLM has preliminarily approved and agreed with this methodology.

10. In furtherance of the protection of correlative rights, Fidelity requests that no well (whether vertical or horizontal) producing from the Paradox formation (as defined above) may be located closer than 660 feet from any portion of the Subject Well's lateral located within said Formation without an exception location approval by the Division or Board in accordance with Utah Admin. Code Rule R649-3-3.

11. Fidelity believes and therefore alleges that the requested relief will allow for the orderly development of the Subject Lands, prevent waste, and adequately protect the correlative rights of all affected parties, and is just and reasonable.

12. Fidelity will, in accordance with Board rules, submit exhibits and present testimony in support of these allegations.

13. Fidelity will separately file a certificate of mailing listing all parties known to it based on a search of the respective BLM and Grand County realty records, the records of the Division, and upon its own internal records, whose "legally protected

interests” will be affected by this Request. There are no respondents or adverse parties known at this time to Fidelity.

**WHEREFORE**, Fidelity respectfully requests:

1. That this matter be set for hearing on October 28, 2015;
2. That notice of such hearing be given as provided by law; and
3. That upon sufficient evidence produced and testimony given at the hearing,

the Board grant this Request and issue an order:

- a) establishing a special drilling unit for the CCU 7-1-26-20 horizontal well for the production of oil and associated gas and hydrocarbons for the Paradox formation (as defined above), comprised of Lots 9 and 10, SE $\frac{1}{4}$ NW $\frac{1}{4}$ , E $\frac{1}{2}$ SW $\frac{1}{4}$ , W $\frac{1}{2}$ SE $\frac{1}{4}$  and SE $\frac{1}{4}$ SE $\frac{1}{4}$  of Section 6 and the NE $\frac{1}{4}$ NE $\frac{1}{4}$  of Section 7, Township 26 South, Range 20 East, SLM, retroactive to January 27, 2014, the date of first production for said Well;
- b) providing that no well (whether vertical or horizontal) producing from the Paradox formation (as defined above) may be located 660 feet closer than from any portion of the Subject Well’s lateral located within said Formation without an exception location approval by the Division or Board in accordance with Utah Admin. Code Rule R649-3-3;
- c) making such findings and orders in connection with this Request as it deems necessary; and
- d) providing for such other and further relief as may be just and equitable under the circumstances.

Respectfully submitted this 10<sup>th</sup> day of September, 2015.

**MACDONALD & MILLER MINERAL  
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